

COTSWOLD DISTRICT COUNCIL

AUDIT COMMITTEE

26 SEPTEMBER 2019

Present:

Councillors

Patrick Coleman

Chair

Stephen Andrews
Nick Maunder

Richard Morgan (left at 11.30am)

Substitutes:

Stephen Andrews

Apologies:

Ray Theodoulou and Roly Hughes.

AUD.16 SUBSTITUTION ARRANGEMENTS

Councillor Stephen Andrews substituted for Councillor Ray Theodoulou.

AUD.17 DECLARATIONS OF INTEREST

There were no declarations of interest under the Code of Conduct for Members or Section 106 of the Local Government Finance Act 1992.

There were no declarations of interest under the Code of Conduct for Officers.

AUD.18 MINUTES

RESOLVED that the Minutes of the Meeting of the Committee held on 25th July 2019 be confirmed.

Record of Voting - for 4, against 0, abstention 0, absent 1.

AUD.19 CHAIR'S ANNOUNCEMENTS

The Chair announced he would be attending the Local Audit Quality Forum to be held on 25 November 2019 at Transport House, LGA Headquarters.

AUD.20 PUBLIC QUESTIONS

No public questions had been received.

AUD.21 MEMBER QUESTIONS

No Member questions had been received.

AUD.22 PRIVATE WATER SUPPLIES

The Service Leader (Operational, Technical and Pollution Services) and Environmental & Regulatory Services Senior Officer attended Committee to give and update on the changes made following the internal audit report on private water supplies.

There is a duty on Local Authorities to regulate private water supplies such as boreholes, wells, springs, rivers, lakes and land drains. Requirements are that the supply should be wholesome for customers to use.

The team look after 234 private supplies within the district. From the samples being taken 32% of these would fail the test, if this happens recommendations are given to the customer to correct the situation. Samples will be sent to the lab at South East Water and can take anything from five days to three months for the results to be returned. If any fail the Council has a legal obligation to provide technical advice and if there is a clear danger to the water supply the Council would then issue a notice to restrict the supply, the customer would then have 28 days to resolve the issue.

One of the Audit recommendations was to undertake cleansing work on the data which is used to submit information to the Water Inspectorate. This had been done by; prioritising the work on the Uniform computer system and be consistent with data entry which means invoicing can be carried out correctly; updating outdated records and access databases which in turn updates the annual return for the drinking water inspectorate. All members of staff are now entering data consistently and procedures are now in place with quality assurance being carried out to ensure consistency. There is always room for human error.

Work on the sampling procedures had been carried out, updating procedure notes and identifying missing data. A monthly report is run to match every supply to visits and cross that information with historic data.

Risk Assessment which is a legal obligation has to be carried out and the risk assessed as a minimum once every five years. Work plans are issued to each member of staff and put on the forward plan for the next 12 months which is being monitored on a monthly basis.

A new procedure for invoicing is in place with monthly reports being produced to ensure invoicing to customers is taking place. Officers are update to date with invoices to the end of July 2019.

This is a complex service which needs a high level of expertise, improvements have been introduced and Uniform helps with a consistent approach. Issues highlighted in the 2017/18 audit plan are being addressed, with regards to sampling, risk assessment and investigations, costs that are able to be recovered are done so.

Officers responded to Member questions:

- (i) Most enforcement cases comply if served a notice, there is a process for monitoring compliance/non compliance, if the case is considered for prosecution there would be independent scrutiny before this happened.

- (ii) Waste water which is privately cleansed would have private treatment plants if the customers are intending to drink the water. Legislation covers this issue and the environment agency and other organisations would be involved to ensure safety.
- (iii) RAF Fairford have their own borehole and they have to carry out their own assessments on the supply of drinking water which is then presented to the water inspectorate. The Council does not have jurisdiction on the base.

The Chair thanked the officers and noted the high level of assurance which they were able to provide, which is an example of the benefits of having a proactive internal audit service.

RESOLVED that the report and comments made be noted.

Record of Voting - for 4, against 0, abstentions 0, absent 1.

AUD.23 STATEMENT OF ACCOUNTS 2018/19

The accounts were presented to Committee for approval. Thanks were expressed to Council Officers and Grant Thornton for their work on producing the accounts. One of the reasons for the lateness of the final Statement of Accounts was because the Government had changed the dates for final accounts to be produced throughout local authorities and for this reason Grant Thornton had difficulty resourcing local authority audits. Local authorities are lobbying the Government to move the deadline dates for audits back to the end of September. The statutory deadline for publishing the accounts is current end of July.

The Chief Finance Officer commented that the audit fee had been increased by £4,500 because of extra work needed to be carried out. The Council would be writing to the PSAA for them to consider whether they feel this is necessary.

Officers explained that the Statement of Accounts had been prepared for dispatch of papers and some small changes had been made following the dispatch, these were circulated to Committee and had been highlighted in the accounts. The following changes were highlighted:

- (i) The difference in debtors and creditors balances were highlighted to Members, in relation to the collection of council tax business rates, extracting all payments to other organisations such as the County Council, Parish/Town Council, Police and Crime Commissioner, leaving the balance for the Council.
- (ii) Figures had been revised following the McCloud judgement on the pension fund.
- (iii) Some items of income had switched category, although the final figure remained the same.
- (iv) All of 2010 business rates valuations appeals had been resolved. MHCLG were considering the business rates retention scheme.

Officers responded to Member questions:

- (i) Clarification was given to Members in relation to the collection of council tax. The Council collecting the tax, payments go out to Parish/Town Councils,

County Council and Police. Some payments are paid in twelve monthly instalments, some every six monthly instalments. The monies left would be invested. If there is late collection of council tax and the Council has a surplus, this would be distributed to the relevant organisations. One exemption of collection of business rates was the flooding in Gloucestershire in 2007.

- (ii) The implications around McCloud ruling on the pension fund are being monitored by officers, with Actuaries calculating the investment returns.
- (iii) Journal entries have been corrected, within income and expenditure.
- (iv) Categorisation of items such as investment income, fees and charges have been put under headings to explain the income, categorisation should be clearer and there is a mapping process to these items.
- (v) Reserves are working for the Council in the financial markets. The capital strategy sets out plans on spending.

Grant Thornton were invited to speak to Committee. They explained that there are two opinions, the first for financial statements and second for a value for money conclusion on whether the Council is delivering what it is meant to deliver. They did anticipate offering an unqualified opinion although a few adjustments were made to conclude the Audit. They were in receipt of a signed variation. The opinions set out areas of work and value for money arrangements, medium term financial planning and governance arrangements in relation to Publica. The concept of materiality is used so every pound is not being audited.

A risk which had been identified was around journals, although an improvement had been made on last year, it is still a high risk area and controls need to be in place.

The Chief Financial Officer explained that there are financial challenges ahead and decisions will need to be made in the future whether the Council call on reserves or discover ways of income generation, such as reviewing fees and charges, review of car parking charges. Substantial savings were made through sharing services and setting up Publica.

The Chair thanked Grant Thornton and Officers for the thorough approach to the audit and the impending unqualified opinion.

RESOLVED that:

- (a) the Grant Thornton findings report for the Council be noted;**
- (b) the Statement of Accounts be approved;**
- (c) the Chief Finance Officer and the Chairman of the Audit Committee be authorised to write a letter of representation on behalf of the Committee and Council the Grant Thornton to enable an opinion to be issued.**

Record of Voting - for 4, against 0, abstentions 0, absent 1.

AUD.24 TREASURY INVESTMENT OPPORTUNITY WITH A HOUSING REIT (REAL ESTATE INVESTMENT TRUST)

The report presented a treasury investment opportunity for the Council to invest in available long term funds in a Social Housing REIT

Officers explained that Fundamentum Property are looking to raise £150m. To do this they would go through the international stock exchange, for the purchase of properties for vulnerable people and people with disabilities. Arlingclose Limited, the Council's treasury advisors had identified this opportunity to invest. The amount which was considered appropriate to invest would be £1m. Officers and Arlingclose would be doing further due diligence. The money could be earning an additional £40,000. The risk of investing in an investment trust is of the rise and fall of the investment in line with the valuation of the housing assets

Officers responded to Member questions:

- (i) Fundamentum Property owned the Castel Fund which was sold and they are now looking to set up a new fund;
- (ii) 25% of the UK REIT's are already listed on the International Stock Exchange;
- (iii) There are three directors listed on the REIT, the auditors are KPMG. They would be working alongside local authorities, the management fees would be 0.6% and ongoing charges.
- (iv) A fixed fee is being received for the launch.
- (v) Officers would ascertain whether there would be an entry fee for the launch.
- (vi) Members required assurance at Arlingclose were doing due diligence
- (vii) 5% inflation linked.
- (viii) The money invested in the REIT would be invested for the long term, Members were concerned about liquidity and the market price if they were to sell shares, and how the estimate of the shares could change, the return on investments, the gearing seems quite high.
- (ix) There is a large exposure on that fund, how much borrowing on top, investing in residential property and there is a risk of the property market falling.
- (x) There would be a need to ensure that this would be an ethical type of investment as the Council had passed a motion on the climate change emergency.

A proposal was put forward by Councillor Maunder to half the investment to £500,000.

Members were concerned to be investing in the REIT and wanted more information and reassurances, as the launch was to be in the Channel Islands and run from the Isle of Man. There were also concerns over why the Castel Fund run by Fundamentum Properties was sold and did the investors make money by selling the fund. Officers were asked to consult with Arlingclose and do more due diligence on what consequences of the future investment would be if Fundamentum did sell the portfolio.

Grant Thornton highlighted that there would be audit regulations in relation to investing in the REIT and they would appoint a review partner to deal with the investments and questioned whether the Council would be dealing with an investment or a company.

RESOLVED to note the reports and comments made

Record of Voting - for 3, against 0, abstentions 0, absent 2.

AUD.25 DATE OF NEXT MEETING

The date of the next meeting to be held in the Council Chamber at the Council offices, Trinity Road, Cirencester, 14 November 2019 at 4.00 pm.

AUD.26 OTHER BUSINESS

There was no other business that was urgent.

The Meeting commenced at 10.00 a.m. and closed at 1.20pm

Chair

(END)